Development of tourism in Croatia as a new tourist destination compared to tourism development in select post-communist countries

Nina Skuric

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DEVELOPMENT OF TOURISM IN CROATIA AS A NEW TOURIST DESTINATION COMPARED TO TOURISM DEVELOPMENT IN SELECT POST-COMMUNIST COUNTRIES

By

Nina Skuric

A thesis submitted to the
Department of Graduate Studies in the
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School of Food, Hotel and Travel Management
Department of Graduate Studies

M.S. Hospitality-Tourism Management
Presentation of Thesis/Project Findings

Name: Nina Skuric               Date: 8/5/99   SS#: 

Title of Research: Development of tourism in Croatia as a new tourist destination compared to tourism development in select post-communist countries

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(2) ____________________________________________

OR (3) ____________________________________________

Faculty Advisor: ____________________________________________

Number of Credits Approved: ____________________________________________

8/5/99

Date Committee Chairperson's Signature

8/5/99

Date Department Chairperson's Signature

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This study talks about the development of tourism in Croatia in the post-war period (1995 - 1999) compared to the development of tourism in the selected post-communist Eastern European countries of the Czech Republic and Hungary.

In order to present this process, the study will analyze the present situation of tourism in Croatia, the Czech Republic and Hungary. Additionally, it will compare facts in order to analyze the gaps and give the recommendations. Furthermore, the study will review the historical conditions that caused the similar social development in all three indicated countries.
ACKNOWLEDGEMENTS

I would like to thank to everyone who have supported me and helped me to accomplish this task.

Special thanks to Dr. James Jacobs for his assistance during this process and to the professors: Dr. Richard Marecki, Dr. Edward Kelly, Dr. Joseph LaLopa, Dr. Edward Marecki, Dr. Clint Wallington, Dr. Jim Mayers and Dr. Damon Revelas.

I would like to thank to unique and fantastic team MICRONY, to all my wonderful friends. I have been fortunate to meet all of you because without your support I would never been able to achieve this goal.

And at the end, I would like to thank to my parents, my brother, Antun, and my sister, Pave, as well as to my colleague from the office, Maria, for their help and understanding.
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CHAPTER I

Introduction

For more than a hundred years the Croatian Coast of the Adriatic Sea has been known for its tourist resorts, natural beauties and cultural heritage. Croatia was a part of Austro-Hungarian Empire from 1527 – 1918. In the middle of 19th century, the Croatian coastal city of Opatija became a famous winter resort and spa for noble families from the Empire thanks to the mild winters and numerous privileges of Mediterranean climate. The Croatian coast was very important for the economies of the countries that were developing tourism during the First Yugoslavia from 1918 until 1941, and the Second Yugoslavia, after the Second World War.

After democratic changes in 1990 and the aggression in 1991, Croatia became an independent state. With the war actions over, Croatia was now a newly created country on the political and geographical map of Europe as well as being a post-communist country. See Chart I
Chart I - Republic of Croatia and its position in South and South Eastern Europe.

In order to rebuild tourism as an important aspect of its’ economy, Croatia had to create its own image of a new tourist destination.

The rebuilding of Croatian infrastructure after the war has been an important task. The creation of the unique Croatian tourism product has the same importance. The growth of the tourism product represents jobs and foreign investment critical to the future growth of the Croatian economy. Croatia, as a newly created country, has had to create its own image as a new tourist destination.

In 1989 political changes in Eastern Europe caused the crash of Berlin Wall announcing the end of the socialism in other countries of the Eastern Block including Czech Republic and Hungary. The political changes of Yugoslavia occurred as the natural consequence of the historical events in Eastern Europe. As the result of political changes in Eastern Europe new countries appeared on the European map: Czech Republic, Slovakia, Slovenia, Croatia, Bosnia and Herzegovina.

Each of these newly created countries has been passing through a difficult period of transition from a socialist system to the free market economy. In many cases, these post-communist countries have faced challenges similar to Croatia in as they adapted to new conditions to market their tourism product.
But, Croatia has the unique challenge of dealing with the war damage and destruction of tourism infrastructure in the war torn areas at the Croatian coast. Tourism is one of the most important aspects of Croatian economy. For this reason, in the last five years Croatia has been investing a lot in tourism. Tourism promotion, subsidies of transportation within Croatia, improvement of financial state of hotel enterprises, preparation of the tourist seasons, incentives to small business, development of rural tourism and guarantees for loans approved by Croatian Bank for Reconstruction and Development, identify a few of these investments.

Since 1997, 500 million US$ have been invested in Croatian tourism.

**Table 1.1: Croatian investments in tourism**

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
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<tr>
<td>1997</td>
<td>287 million US$</td>
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<tr>
<td>1998</td>
<td>160 million US$</td>
</tr>
<tr>
<td>1999</td>
<td>150 million US$</td>
</tr>
</tbody>
</table>

The Problem

The conditions described in the Introduction lead us to the better understanding of the focus of this study: the rebuilding of tourism in Croatia after the war. This study will focus on what can be done to revive tourism development in Croatia taking into consideration the obstacles facing rebuilding tourism in this country.

Background

Croatia is a nation in terms of ethnicity, possessing a unique spoken and written language, and a common history spanning at least thirteen centuries. Croatia was an independent and powerful kingdom in Europe from the 9th to 11th century and has been an independent country since breaking away from Yugoslavia in 1990. From 1102 until 1526 Croatia was part of the Hungarian-Croatian Kingdom. In 1526, Europe was in danger of Turkish descent, and to preserve the integrity of Croatian territory, in 1527 the Croatian nobility chose the Hapsburg family for their kings. Croatia was a part of Hapsburg Monarchy until 1918.

In 1918, after the First World War, Croatia became a component of the Kingdom of Slovenians, Croats and Serbs. This kingdom later became the Kingdom of Yugoslavia. Croatia lost all insignia and characteristics of the state when it became a component of the Kingdom of Yugoslavia.
After the Second World War, in 1945, Croatia became the part of communist Yugoslavia. As a republic within Yugoslavia, Croatia was under the communist government for 45 years.

Croatia has been an independent country since breaking up with Yugoslavia in 1990. During the war in Croatia (1991 - 1995), aggression on Croatia and the war for liberation of the occupied Croatian territories, the Croatian economy was destroyed considerably. One third of the country was occupied by so called "Yugoslav Army". The infrastructure, including the infrastructure important for tourism such as airports, harbors, roads, and hotels, as well as cultural monuments, in these areas were almost completely destroyed.

**Czech, As a Western-Slavic People**

Czechs, as a Western-Slavic people, during the big migration of peoples in 5th and 6th century settled around the middle stream of Laba River and later spread into the whole territory that now represents Czech Republic and Moravia. The national dynasty under Premysl ruled the Czech countries from the 8th to the 13th century, more or less independently. In 1306, the Premysl dynasty died out, and since then, the Czech countries were ruled by the dynasty of Luxembourg. The most important sovereign from this dynasty was Charles the First who ruled from 1346 - 1378. He established the Charles University in Prague.
In the 15th century (1419 -1436), many wars occurred as the result of resistance to the Germanic dynasty of Luxembourg. The last king of Luxembourg dynasty, Sigismund, had to leave the country because his reign was jeopardized by numerous rebellions. For the period of the next hundred years various dynasties and sovereigns ruled the country.

In 1526, Czech countries became part of the Hapsburgs Monarchy and remained part of this monarchy, until the end of the First World War.

In the 16th century a reformative movement griped Czech countries. The rebellion in Prague in 1618 was the beginning of the 30 years war. This conflict was a clash between Catholics and Protestants. When the Austrians defeated Czech reformers, Czech was turned into common province and ceased to be an independent kingdom within the Hapsburg Monarchy. However, Czechs recovered and in the 19th century Czech became the most prosperous economic part of the Austro-Hungarian Empire. For centuries Czechs lived surrounded by Germanic peoples and were exposed to Germanization. Cherishing the Slavic features of their neighbors, Czechs also embraced numerous elements of Germanic material and spiritual culture.

After the break of the Austro-Hungarian Empire, the Czech and Slovak countries became one country Czechoslovakia. In 1938, Germany took the Sudete Region from Czechoslovakia. This was the most developed region of Czechoslovakia inhabited by Germans. In 1939, Slovakia declared a puppet government under
the wings of German rule. In 1939, Hitler occupied the whole country of Czechoslovakia. In 1946, the communist party won the election in Czechoslovakia. In 1968, Prague Spring propagated socialism with a human face, but the intervention of the Warsaw pact put Prague Spring and its reformers down.

The political changes in Czechoslovakia began in 1989 with the collapse of socialism. The decision of peaceful separation was made on January 1, 1993. Czechoslovakia was separated into two independent countries Czech Republic and Slovakia.

**Hungarians are Ugrofinnic People**

Around the year 300, the Hungarians, as Ugrofinnic people, came from the East to the Pannonian plain and settled the banks of Danube and Tisza River. Their position in that area prevented the Germans from moving further East, and separated Western from Southern Slavic peoples.

In 955, the Germans defeated the Hungarians and the Hungarian integration in European political circle began. From the beginning of the 11th century until the 13th century Hungary was under the rule of the national dynasty of Arpad. In 1001, Stephen Arpad was crowned the first Hungarian King. In 1301, the Arpad dynasty died out and after that, for a longer period of time, Hungarians lived under the rule of foreign dynasties like Anjou, Luxembourg, Jaglovcic, etc. This disorder lasted
for 200 years and contributed to total Hungarian defeat by the Turks in 1525. This cost Hungary a huge part of its territory.

In 1527, one part of Hungarian nobility chose Ferdinand Hapsburg for Hungarian King. Hungary was part of the Hapsburg Monarchy until the end of the First World War. For 150 years, the Hapsburg Monarchy struggled to return the territories that Hungary lost in Mohac battle being defeated by Turks. When Hapsburgs succeeded to return these territories, Hungarians grew considerably stronger and forced Austrians to make the Austro-Hungarian agreement of 1876 what put Hungarians in almost equal position with Austrians.

After the First World War, Hungary became an independent state but it lost a big part of its territory to its neighbors. After the Second World War Hungary became a communist country and in 1949 the People’s Republic of Hungary was declared. Hungary reminded the socialist country until 1990.

Analyzing the historical events in all three countries, we can draw certain parallels and find similarities. All three countries are old nations, once independent and powerful kingdoms. All of them were parts of Austro-Hungarian Empire, and therefore, experienced similar cultural influences. After the Second World War, the Communist party won elections in all three countries, forcing these countries to live under the socialist system until the late eighties and early nineties. After democratic changes, these countries have passed through
a transition period, transforming centrally planned economies into market economies.

In the period of adapting to new market conditions, Croatia experienced challenges similar to those of the other post-communist countries. This includes bureaucracy, low motivation, undetermined mission, a high level of general knowledge, but poorer specific skills. Peaceful separation in Czechoslovakia and peaceful change of the political system in Hungary, enabled these two countries to overcome numerous difficulties after the transition period. This process was much easier for Czech republic and Hungary than for Croatia because Croatia has been burdened by huge war destruction as well.

**The Purpose**

The study will analyze the reality of Croatian tourism and compare the present situation with similar situations in the countries of the Czech Republic and Hungary. Additionally, this study will show how tourism has been rebuilt during the post-war period in Croatia (1995 - 1999). The purpose of this study is to look at the present tourism situation in an attempt to make recommendations regarding how tourism might be changed for the benefit of the Croatian economy and the life standard of the local population. See figure I.
**Significance**

The significance of this study is to demonstrate that tourism development will considerably improve the Croatian economy as well as contribute to the better quality of life of the Croatian people.

**Methodology**

The methodology of this study uses a five-step process.

**Step One** defines the problem (See problem statement and background sections).

**Step Two** examines the current reality of tourism in Croatia.

**Step Three** identifies the current successful steps taken in Hungary and Czech Republic.

**Step Four** compares step two and three and clarify similarities and differences between Croatian tourism and tourism in Czech Republic and Hungary (gaps).

**Lastly**, recommendations about how to build a more effective tourism product based on gaps identified.

The chapters in this thesis correspond to the steps above.
Table 1.2 - Chapters of this Thesis.

| Chapter I | - Problem development |
| Chapter II | - Realities on Croatian tourism |
| Chapter III | - Gaps |
| Chapter IV | - Recommendations |


Literature Review

Flood, Robert & Jackson Michael C. (1989). Creative Problem Solving, Albany, New York, presents the essence of total quality management (TQM) in increasing customer satisfaction by improving the quality of services and involving people in their work. There are two distinct but inter-linked processes; to improve the quality of manufacturing and other business processes and to develop the view that all employees have and individual's responsibility for quality. The external communication with customer as well as the internal communication with other departments must be improved and maintained.

Croatian tourism and hospitality industry endeavors to improve the quality of service by developing an individual responsibility for quality, according to the statements of Total Quality Management (Flood and Jackson (1989) "Creative Problem Solving", New York State Education Department, Albany, NY). These efforts in tourism and hospitality are not followed
by the same process in other service trades that are in direct or indirect connection with tourism (cafes, shops, post offices, banks, hospitals, and administration offices). With democratic changes in Croatia, the business environment has been changed from being simple, homogenous, stable and friendly to being complex, diverse, turbulent and hostile. Still the organizational structure remains very centralized and highly bureaucratic.

Total System Intervention (TSI) (Flood & Jackson 1989) is defined as taking action in addressing many important issues within the organization. These include increasing the professionalism of the executives’ handling of management issues, improving the handling of executive business, generating mutual respect between executive members and staff, making the executive more aware of staff work, increasing executive contact with staff, and increasing staff confidence in the executive. The majority of organizations in Croatia suffer from poor internal communication and insufficient staff motivation. Croatian society has not yet absorbed a Total System Intervention philosophy. The majority of the organizations in Croatia, including tourism organizations, need a change in the organization’s culture. Soft System methodologies, TQM and TSI, are helpful in identifying potential areas for improvement of systems that support Croatian tourism.
By stimulating creative system thinking about the organization we would move towards creating a learning environment. Building a more intellectual approach helps to change the standard of education and knowledge about certain professions and makes the system more viable. With a learning environment, skilled workforce may prevail, productivity and profit may increase and the quantity of work that has to be redone due to faults will decrease.

For the work process implementation, in Croatian organizations, we need much more effective communication down the line, supported by feedback and follow-up. The managers and supervisors in Croatia will have to become “leaders” creating excellence and quality by creating a learning environment. The customer satisfaction system would also be improved by encouraging the upward communication from below and by giving recognition for achievement of high quality standards as well as by necessary changes in the organization to make jobs more interesting and meaningful.

Dr. Boris Vukonic in *Tourism in the War Storm* (1993), Zagreb, Croatia, defines the consequences of military actions on tourism development. He analyzes the circumstances in the war torn areas that have a negative influence on the tourist product in that very moment.

Dr. Vukonic emphasis the specific phenomenon of refugees and how they constitute a huge economic, medical and sociological problem for any environment. During the war in Croatia, Bosnia and Herzegovina, the refugees sought rescue and safety on Croatian coast. They stayed at the hotels in the summer resorts on the Adriatic Sea, as that was the only accommodations available. Although the Croatian war is now over and the government is investing in tourism rebuilding, Dr. Vukonic concludes that tourism development in these coastal areas is made more difficult. The presence of refugees in tourist resorts makes the potential tourists and visitors feel uncomfortable. Therefore, these destinations are not included in tourist programs even if the visit is feasible. Furthermore, hotel facilities cannot be used in the tourist purposes because longer stay of the refugees at the hotels causes damage on the inventory.

The similarities of the problem situations in post-communist countries in Eastern Europe, caused by the system change, are pointed out in several recent articles identified within the Reference Section of this document.
These articles summarize that the communist regime of Eastern Europe was driven by subsidies and full employment, neither by efficiency nor incentives. Workers received the same pay whether they had customers or not. Communism has instilled unrealistic expectations and deep-rooted corruption. The language and the culture have been damaged. The post-communist countries have to adjust to the idea of a free market economy and it may be another generation before it becomes a true service economy. The attitudes and marketing strategies have to change radically.

**Definition of Terms**

**Country in transition** - A country that passes through the period of adapting to new conditions due to a change in its political and economic system.

**Tourism development** - Strategies and activities that support the development of this aspect of economy due to preconditions that certain country has (factors that enable tourism development in Croatia: natural beauty of the country, rich history, well preserved historical monuments, good cuisine, friendly people).
Tourism destination - Country developing its own tourist product which has its own features and values due to specific conditions (climate, nature, history...) what makes one area different from another. All the above mentioned makes the destination famous and recognized as the place that should be visited.

Hungary - an Eastern European country; after the break of communism, Hungary is a democratic country as well as one of the top world tourism destinations. The Capitol City is Budapest.

Czech Republic - A republic in Central Europe. After the "velvet" revolution (peaceful change of the system) in 1989, the Eastern European country Czechoslovakia was divided into two independent states: Czech Republic and Slovakia. The Czech Republic is one of the top world tourism destinations. The Capitol City is Prague.

Croatia - The Republic of Croatia is situated on the crossroads between Central Europe and the Mediterranean. Since 1992, Croatia has been an independent country. From 1945 until 1991, Croatia was the part of Yugoslavia. After the war, Croatia has passed through the period of transition to free market economy. Croatia has been rebuilding tourism as one of its the most important industries. The Capitol City is Zagreb.

Ugroffinic - 1. Members of the groups of people included; Hungarians, Lapps, Finns and Estonians. 2. A subfamily of Uralic languages of Eastern Europe and Western Siberia,
including Finnish, Estonian, Lapp, Hungarian and several languages spoken in the Ural mountains.

Assumptions

Ideological Assumptions: The first assumption is that Croatia has successfully created its image of a new tourist destination. Another assumption is that the communist system had influenced all aspects of society and human life in the countries involved in this study therefore post-communist period of rebuilding and developing tourism is burdened by behaviors inherited from past system.

Procedural Assumption: This study will seek to use sources and data that do not intentionally influence the readers’ opinions.

Scope and Limitations

This study focuses on the factors that influence tourism development in the period of transition in Hungary and the Czech Republic that are comparable to Croatia. Since there is a variety of information within the literature, the study will be limited by actual data review. The scope of the study is to compare the conditions in tourism development in Hungary, the Czech Republic and Croatia by reviewing literature.
Long Range Consequences

Croatia could determine that tourism is one of its leading industries and support that development. In the process of tourism development, Croatia would use its comparative advantages, such as human potential, natural beauty, historical heritage, and its position on the Mediterranean and its vicinity to Central and Eastern Europe. The move toward creating a learning environment and providing education on all levels within Croatian tourism organizations has the potential to increase customer retention, attract customers from new markets and contribute to a better quality of life of the local population.
CHAPTER II

Realities of Croatian Tourism

This chapter will analyze the current situation in Croatian tourism as well as the tourism reality in Czech Republic and Hungary.

Croatia

The tourist trade in Croatia is more than 150 years old. Although inns and guesthouses were built throughout the country in the first half of the 19th century, the beginnings of tourism are linked with the construction of first hotels designed for tourists. Examples are hotels in Opatija (Grand Hotel, built in 1890) and Dubrovnik (Hotel Imperial, built in 1897). Tourism also flourished with the foundation and activities of tourist societies, especially those on the island of Krk (in 1866) and Hvar (Hygienic Society in 1868). The cities of Porec and Pula had tour guides as early as 1845, while in Zagreb the first guidebook, called A Guide for Natives and Foreigners, was published in 1892, author unknown.

In 1950, 84,000 overnight tourists were registered in Croatia while in 1987 this number reached 59,000,000.

The largest number of international foreign arrivals, 5,900,000 and the largest number of bed nights were recorded in the 1986 - 1987 period, 68,000,000. Foreign tourists accounted for 86% of the total. Traditionally, most of them were Germans (40%), while visitors from United Kingdom,
Austria and Italy altogether accounted for 30 - 35% of all bed nights.

Despite a continual, although slight, increase in accommodation, the tourist trade has been on the decrease since 1989. There were a thousand catering firms in the tourist sector in 1991. There were 570,000 beds in 479 hotels, 48 motels, 78 tourist complexes and 175 camps available to domestic and foreign tourists.

Although the maelstrom of war virtually brought the development of the tourist industry to a halt, it did not completely deter tourists from coming, particularly to areas unaffected by the war.

In addition to a steep fall in the volume of trade, many tourist attractions experienced mass-scale destruction, which in turn defined the scope of post-war destruction. After a one-year break, tourism revived in 1992 but did not really recover until the next year (1993) when 2,300,000 tourists and 13,000,000 bed nights were registered.

The tourist trade in Croatia generates an additional market of 60,000 consumers who spend an average 140 - 150 days in tourist facilities of which 40% come from foreign countries.

In the pre-war years, the additional market involved 70% of foreign tourists who spent nearly USD 2,300,000,000.
The volume of tourist production accounted for 10 - 20% of gross domestic product, creating direct and indirect employment for 200,000 people (5.8% of the total labor force of Croatia) and generating 80% of the overall commodity exports and 61.2% of the service exports. Tourism has not yet recovered to its prewar levels and in 1997 it was 73% of the level recorded in 1990 in terms of foreign tourist overnight stays.

However, the impact of tourism can be seen in other areas like that of trade, transportation and communications, food and beverage production, crafts and other sectors of the economy that service tourist needs. The share of budget accommodation in the overall accommodation potential of Croatia was 23%. About 20% of the accommodation were high category and 30% medium category (tourist class).

The largest number of foreign bed nights was registered in hotels (38%), camps (27%) and rented rooms (21%), while more than 70% of domestic tourists sought cheaper accommodation. One of the significant characteristics of Croatian tourism is the marked concentration of tourist facilities along the Adriatic coast, which indicates that the tourist trade is more developed along the coast than in the continental parts of the country.

Another prominent feature of Croatian tourism is its seasonal nature. Budget accommodations are used 104 days per year by foreign tourists and 36 days by domestic tourists.
Luxury and tourist class accommodation is occupied 31 days by foreign and 27 days by domestic guests, which translates into 58 days of full occupancy.

Research results show that most tourists come to Croatia individually. Increased efforts in recent years to systematically analyze the international tourist market resulted in a new sign and logo of Croatian tourism and a slogan "Small Country for Great Holidays"; under which promotional events on the international tourist market have been organized since Croatia became an independent state.

In 1996, 2,700,000 foreign tourists visited Croatia and generated 16,600,000 bed nights. The overall number of tourists was 3,900,000, with 21,500,000 bed nights, or 67% more than in 1995. Domestic visitors bed nights increased by 12% and foreign by 94%.

In 1998, 4,111,000 foreign tourists visited Croatia and generated 26,000,000 bed nights. Most of them were Italians (20%), Germans (20%), Slovenians (15%), Czechs (15%), and Austrians (12%)....

The highest authority on tourism is the Committee on Tourism of the Croatian Parliament and the highest executive body of the Croatian government is the Ministry of Tourism. On the national level, the Croatian Tourist Association, and the Croatian Chamber of Commerce promote tourism. This effort also includes hotel and catering associations, travel agencies and organizations promoting nautical tourism.
Tourism has been constantly facing problems of seasonality. Croatia is "a country of 1000 islands". The Croatian coastal region contains 718 islands (this number does not include 389 rocks and 78 reefs), of which 66 are inhabited (2.3% of Croatia's total population). Before the war in Croatia, some islands were well known for its summer resorts like Brac, Hvar, Korcula, Losinj, Krk, and Rab.

The problem of developing tourism on other Croatian islands is in poor ferry and hydrofoil connection between the islands and the mainland. Hydrofoils were largely used in connecting islands to the coast, especially as transportation to the islands included in package tours.

The international tourists come to Croatia in their own cars, motor coaches or airplanes. Fourteen international airline companies operate flights to Zagreb, the Croatian capital and the biggest airport.

During the period of war and post-war period, Croatian Government continued promoting tourism in all European countries. The Croatian National Tourism Office and major travel agents offices from Croatia have been present on all travel shows and exhibitions in Europe, America and Japan. This was done in order to demonstrate the truth about Croatia as a newly created country and a new tourist destination well known for its world precious sites: Dubrovnik, Korcula, Hvar, its national beauties and cultural monuments.
Croatia creates its own tourist product that incorporates natural beauty, cultural heritage, arts and crafts, and simplicity of everyday life.

The break-up of Yugoslavia, which has coincided with the beginning of the transition period in Croatia, had two opposite consequences for Croatian openness/trade. On the one hand, by definition, it made Croatia more open economy, as more of its GDP (that was previously traded with ex-Yugoslav republics) had become part of the international trade.

The war immediately started to negatively influence Croatian trade because most of the links were broken with eastern parts of the former common country. This section of the country was a “natural” export market for domestic producers. Previously, as opposed to the case of velvet divorce of Czechoslovakia whereby these links were preserved, the economy dropped into the much worse war related crises then would have otherwise been the case.

Tourism has been a hostage to the war and the subsequent instability into the region. It is straightforward to conclude that the war and the instability in the region since the beginning of the transition process have been enormous to the main Croatian export industry. The potential for the recovery and further development of the tourism industry is huge, but it will not happen quickly.
The turnover in tourism in 1998 represents 60% of the turnover in 1990 and less than 46% of the turnover in the most successful year, 1985.

Two thirds of Croatia’s tourism income is generated in only two months, July and August. This represents an outstanding opportunity to capitalize on extended tourism stays and benefit Croatia’s economy. The length of stay of tourists in Croatia has been decreased from 6.3 days to 6.01 days. As a consequence of decline of life standard in Croatia, the structure of tourist arrivals has changed and there are about 84% of international tourist arrivals and only 16% of domestic tourist arrivals. The utilization level of hotel capacity represents 70% of the pre-war years and only 52% of the utilization level reached in 1985.

Compared to Czech Republic and Hungary, after the declaration of independence, Croatia lost huge part of western market. There is a positive trend in tourism arrivals from Austria, Italy, and Slovenia and on domestic, Croatian, market. There has been a very slow return of the tourists from countries that were considered the traditional market for Croatia; e.g. Germany, Netherlands, Great Britain, France, Belgium, Switzerland and Scandinavian countries. A huge increase occurred in the number of international arrivals from the Czech Republic, Slovakia, Hungary and Poland. But this increase could not compensate all what was lost on the above mentioned markets.
### Table 2.1 World's Top 40 Tourism Destinations

International tourist arrivals (excluding same day visitors).

<table>
<thead>
<tr>
<th>Rank</th>
<th>Countries</th>
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<th>% of total 1997</th>
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<td>FRANCE</td>
<td>66,864</td>
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<td>10.9</td>
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<td>25,960</td>
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<td>HUNGARY</td>
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<td>AUSTRIA</td>
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<td>THAILAND</td>
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<td>22</td>
<td>SINGAPORE</td>
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<td>42</td>
<td>35</td>
<td>35</td>
<td>EGYPT</td>
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<td>37</td>
<td>36</td>
<td>SAUDI ARABIA</td>
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<td>37</td>
<td>PUERTO RICO</td>
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<td>25</td>
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<td>MOROCCO</td>
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<tr>
<td>35</td>
<td>53</td>
<td>39</td>
<td>BRAZIL</td>
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<tr>
<td>27</td>
<td>30</td>
<td>40</td>
<td>ROMANIA</td>
<td>2,741</td>
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</table>

**TOTAL 1-40** 530,367  2.7  86.7
Table 2.2 World’s Top 40 Tourism Earners International tourism receipts (excluding transport) (USD million) - 1997

<table>
<thead>
<tr>
<th>Rank</th>
<th>Countries</th>
<th>Receipts (000)</th>
<th>% change 1997/96</th>
<th>% of total 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>UNITED STATES</td>
<td>75,056</td>
<td>7.4</td>
<td>16.9</td>
</tr>
<tr>
<td>2</td>
<td>ITALY</td>
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<td>-0.1</td>
<td>6.8</td>
</tr>
<tr>
<td>4</td>
<td>FRANCE</td>
<td>28,316</td>
<td>-0.1</td>
<td>6.4</td>
</tr>
<tr>
<td>3</td>
<td>SPAIN</td>
<td>26,595</td>
<td>-3.9</td>
<td>6.0</td>
</tr>
<tr>
<td>5</td>
<td>UNITED KINGDOM</td>
<td>20,569</td>
<td>6.6</td>
<td>4.6</td>
</tr>
<tr>
<td>6</td>
<td>GERMANY</td>
<td>16,418</td>
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<td>3.7</td>
</tr>
<tr>
<td>7</td>
<td>AUSTRIA</td>
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<tr>
<td>21</td>
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<td>THAILAND</td>
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<td>0.4</td>
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</tr>
<tr>
<td>77</td>
<td>POLAND</td>
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<td>2.0</td>
</tr>
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</table>

(1) Former Czechoslovakia. (2) Former USSR.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th>Country</th>
<th>Value</th>
<th>Change</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
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<td>13</td>
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<td>8</td>
<td>8</td>
<td>14</td>
<td>SWITZERLAND</td>
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<td>1.8</td>
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<tr>
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<td>10</td>
<td>15</td>
<td>MEXICO</td>
<td>7,593</td>
<td>9.5</td>
<td>1.7</td>
</tr>
<tr>
<td>18</td>
<td>21</td>
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<td>TURKEY</td>
<td>7,000</td>
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<td>1.6</td>
</tr>
<tr>
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<td>6,669</td>
<td>-3.0</td>
<td>1.5</td>
</tr>
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<td>NETHERLANDS</td>
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<td>1.5</td>
</tr>
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<td>1.5</td>
</tr>
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<td>BELGIUM</td>
<td>5,997</td>
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<td>1.4</td>
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<td>18</td>
<td>21</td>
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<td>1.2</td>
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<td>27</td>
<td>22</td>
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<td>1.1</td>
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<tr>
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<td>17</td>
<td>23</td>
<td>JAPAN</td>
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<td>6.0</td>
<td>1.0</td>
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<td>24</td>
<td>PORTUGAL</td>
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<tr>
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<td>24</td>
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<td>2.1</td>
<td>0.9</td>
</tr>
<tr>
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<td>22</td>
<td>28</td>
<td>SWEDEN</td>
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<td>3.6</td>
<td>0.9</td>
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<tr>
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<td>TAIWAN</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>(Prov.of China)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>55(2)</td>
<td>62</td>
<td>30</td>
<td>CZECH REPUBLIC</td>
<td>3,700</td>
<td>-9.2</td>
<td>0.8</td>
</tr>
<tr>
<td>-</td>
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<td>31</td>
<td>MACAU</td>
<td>3,317</td>
<td>2.9</td>
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<td>35</td>
<td>32</td>
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<td>DENMARK</td>
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<td>35</td>
<td>PHILIPPINES</td>
<td>2,831</td>
<td>4.9</td>
<td>0.6</td>
</tr>
</tbody>
</table>
Czech Republic

In 1997 the number of international tourists that visited Czech Republic was 17,400 million with USD 3,7 billion of international tourism receipts.

The big majority of the tourists coming to Czech Republic are using roads and coming by motor coaches and cars (95%). The rest are coming by trains (3%) and by airplanes (2%). Tourists coming by road are mainly using the border with Germany to enter to Czech Republic (45%), the border with Austria (15%), the border with Poland (22%) and the border with Slovakia (18%).

The percentage of international tourists to Czech Republic that are coming there for holidays is 37%, 15% of international tourists come to Czech Republic for city tours, 13% on business trips, 12% for cultural events, 6% for shopping and 16% for other reasons.
The analysis of the visit of international tourists by regions as well as the countries of the destination and the average days of stay of international tourists in Czech Republic shows the following:

Table 2.3 Foreign tourists in Czech Republic in 1998 by location.

<table>
<thead>
<tr>
<th>Location</th>
<th>Guests by location in % including foreigners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Prague</td>
<td>37.3</td>
</tr>
<tr>
<td>Central Bohemian</td>
<td>6.1</td>
</tr>
<tr>
<td>South-Bohemian</td>
<td>6.3</td>
</tr>
<tr>
<td>West-Bohemian</td>
<td>9.7</td>
</tr>
<tr>
<td>North-Bohemian</td>
<td>8.8</td>
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<tr>
<td>East-Bohemian</td>
<td>12.9</td>
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<tr>
<td>South-Moravian</td>
<td>10.1</td>
</tr>
<tr>
<td>North-Moravian</td>
<td>8.8</td>
</tr>
</tbody>
</table>

**Table 2.4 Foreign tourists in the Czech Republic in 1998**

(excluding same-day visitors)

<table>
<thead>
<tr>
<th>Country</th>
<th>% total</th>
<th>Average days of stay</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Germany</td>
<td>31.2</td>
<td>4.7</td>
</tr>
<tr>
<td>2. Poland</td>
<td>6.6</td>
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<td>3. Netherlands</td>
<td>5.7</td>
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<td>4. Italy</td>
<td>5.4</td>
<td>3.9</td>
</tr>
<tr>
<td>5. Russia</td>
<td>5.1</td>
<td>5.4</td>
</tr>
<tr>
<td>6. Slovakia</td>
<td>4.7</td>
<td>4.0</td>
</tr>
<tr>
<td>7. United Kingdom</td>
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<td>8. United States</td>
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<td>4.0</td>
</tr>
<tr>
<td>9. Austria</td>
<td>3.4</td>
<td>3.1</td>
</tr>
<tr>
<td>10. France</td>
<td>3.3</td>
<td>3.5</td>
</tr>
</tbody>
</table>


In January - April 1999, 27,600,000 visitors from abroad arrived in the Czech Republic. In comparison with the same period of 1998 it decreases by 6.6%.

The Czech National Bank said, the yield in foreign currency coming from tourism in January - March 1999 could reach 7,000,000,000 USD i.e. approximately by 6.0% more than in January - March 1998. The income in foreign currency from tourism could represent about 11.2% of export from the Czech Republic and about 5.4% of the GDP.
In 1997 there were 41,170 foreign controlled organizations in Czech Republic and 10,353 joint stock companies. Unemployment rate in Czech Republic 5.23%. Strength of American dollar: 1 USD = 32,288 CZK. Source: Czech Statistical Office, Czech National Bank (1999), and Ministry for Regional Development (1998).

The Ministry for Regional Development was established on November 1\textsuperscript{st}, 1996 and is divided in six sectors among which there is the Sector of Tourism and Finance. The Department of Tourism exists within the sector of Tourism and Financing.

The Department of Tourism proposes and implements the measures aimed at strengthening international co-operation and the image of the Czech Republic abroad including proposals for the relevant programming funding and their implementation. It also identifies and supports foreign assistance in developing tourism in the Czech Republic. The Ministry for Regional Development analyzes tourism development, cooperates in training workers in tourism, and performs an agenda associated with the membership of the Czech Republic in the World Tourism Organization, and other organizations. It also cooperates with regional and professional associations in supporting the development of regional tourism, provides consulting services to regional authorities and entrepreneurs in matters of tourism acts as a founder of the Czech Center of Tourism.

**Hungary**

In 1997 the number of international tourist arrivals to Hungary reached 17,248,000 with USD 2,600,000,000 of international tourism receipts.

In 1998 revenues from tourism reached USD 2,500,000,000, 3.1% down on 1997. The surplus of tourism amounted to USD 1,300,000,000 in 1998, 3.1% down on 1997. In the first quarter of 1999 revenues from tourism amounted to USD 469,000,000, 10.1% up on 1998 while the surplus from tourism reached USD 230,000,000, an increase of 27.1% on 1998. The number of foreigners visiting Hungary fell by 15.3 % and that of Hungarian nationals making trips abroad decreased by 19.3%.

Unemployment rate was 7.4% in the first quarter of 1999. Real wages increased by 3.6% in 1998 and went 3.1% up in the first quarter of 1999.

The stock of foreign direct investments (FDI) amounted to USD 19.7 in 1998. The flow of FDI amounted in USD to 1,900,000,000 in 1998. In the first quarter of 1999 FDI amounted to USD 3,100,000,000.
At present, more than 30,000 foreign owned companies are operating in Hungary, accounting for 78% of the country’s industrial exports. Telecommunications, the processing industry, electricity and gas service, retail trade and the banking sector attracted the bulk of foreign investments.


The country can be divided into nine main tourist regions: North Eastern Hungary, Lake Tisza, Southern Great Plain, Central Danube Region, Budapest, Central Transdanubia, Western Transdanubia, South Western Hungary and Lake Balaton.

The majority of tourists from all over the Europe are coming to Hungary by buses and trains. There are direct rail links between Budapest and 13 capital cities of Europe. Forty-seven international scheduled trains arrive daily in Budapest. Nineteen airline companies operate flights to Budapest from 48 cities of 32 countries, and in addition, MALEV, the Hungarian Airlines has scheduled flights to more than 40 foreign cities which means that any point in the world can be reached to and from Budapest.

Hungarian national Tourist Office was set up on 1st march 1994 to carry out public interest tourism marketing tasks for the Ministry of Economic Affairs, Department of Tourism Policy. Hungarian National Tourist Office provides basic and comprehensive information on the country’s natural beauties, historic monuments, culture, gastronomy and all other aspects of potential interests to tourists. With the restructuring of
the bodies guiding the sector, the tasks of Hungarian National Tourist Office have been considerably expanded: it must now integrate all work phases, from the elaboration of national tourism marketing plans, through tourism product management, to launching of the product on the market and control. The main areas of its marketing work are research, product development, product management, promotion, information and press. Hungarian National Tourism Offices are opened in sixteen foreign countries (Austria, Belgium, Czech Republic, France, Germany, Great Britain, Holland, Italy, Japan, Northern Europe, Poland, Romania, Russia, Switzerland, Ukraine, and USA).

The majority of tourists that visit Hungary come also from the neighboring countries Austria, Germany then Italy and recently Russia and Ukraine. International tourists are mainly coming by motor coaches for city tour in Budapest. Tourists from Austria and Germany are also coming for summer vacation on Balaton Lake in Hungary. At the same time hunting and health tourism have been developed. Jewish people from all over the world visit Budapest because this town, before the Second World War was the center of Jewish culture in Europe. Average exchange rate of the Hungarian forint (HUF) versus USD is HUF 228 for 1 USD.
CHAPTER III

Analysis of Gaps

This chapter will compare the statistical data on tourism in Croatia, Czech Republic and Hungary given in the Chapter II.

The number of international tourists that visit Czech Republic and Hungary are 5 times higher than the number of international tourists visiting Croatia. There are several reasons for this.

The strongest and the most important reason is the recent war in Croatia. Tourism in Croatia has been picking up although it has not been recovered yet. Furthermore in 1999 Croatian tourism faces the 40% decrease in international tourist arrivals, compared to 1998, due to the political situation in the neighboring country and the war in Kosovo.

Czech Republic and Hungary have Central European position as well as good road and railway connections with Central and Eastern Europe.

The road connections within Croatia are in poor condition and do not meet requirements. The Croatian Ministry for rebuilding and development, in cooperation with the American constructing company, BAHTEL, are now building the roads and highways in Croatia. In the future the new, modern and fast roads will connect Zagreb, Croatian capital situated on the North of Croatia, with the towns on the Croatian coast, the highest Croatian harbour of Rijeka, the Middle Dalmatian town
of Split and Dubrovnik on the south of Croatia. The plan is that the construction of road net within Croatia is finished by the year 2005.

By comparing other information we can see that the FDI in Czech Republic and Hungary (USD 1,900,000,000) is twice as large as in Croatia (less than USD 1,000,000,000). The reason for that is again the recent war in Croatia and the vicinity of the countries still affected by the war. In addition to that Czech Republic and Hungary started their democratic changes as well as the changes of the system earlier than Croatia did. Due to that fact the process of privatization still has not been finished in Croatia. Unemployment rate in Hungary is 7.4%, in Czech Republic 5.23% while in Croatia it is more than 15%.

The principal growth industries expected to receive foreign capital in the near future are infrastructure (road construction, water supply, sewage systems and airport reconstruction), tourism, construction and wood and food processing. Foreign investors are interested in buying existing facilities (small and medium-sized firms) but also in building new facilities.

Foreign investors decide to invest in Croatia for a number of reasons. Improved economic conditions with low inflation and stable exchange rates, favorable legal framework for foreign investments, relatively cheap and skilled labor force, fast growing market, favorable geographical position
enabling access to other markets of the region, and opportunities for development of tourism and trade name a few of the reasons.

American Express has kept good relations with existing representative offices throughout the war in Croatia and transition process in Eastern European countries. They appointed new travel representatives in developing countries. American Express accomplished this by increasing communication levels, organizing regional meetings, using educational seminars, creating business development groups, which consist of American Express staff and representative offices, and by organized training. American Express representative staff, organized seminars in Eastern European countries and Croatia to increase the level of service to the professional.

Among the international hotel chains that have entered Croatia, there are hotels Intercontinental and Sheraton in Zagreb.

Spanish multi-national company "Sol Melia" in 1998 signed the contract with Zagrebacka Bank from Zagreb to manage the hotels of hotel enterprises "Jadranturist" from Rovinj and "Istraturist" from Umag, two leading hotel companies in Croatia, as well as the companies owned mostly by Zagrebacka Bank from Zagreb. Both hotel companies are situated on Istrian peninsula, in the North West of Croatia. This is the most developed tourist region in Croatia. Together they have 6,600 rooms with 19,528 beds, and 6,652 camping units that are able
to accommodate 17,800 persons. Having signed this contract, “Sol Melia” became the largest hotel Management Company in Croatia. Management contract was signed for the starting period of 15 years, with the option for 5-year extension. According to the agreement, the owner, Zagrebacka Bank, has the obligation to invest the amount of 100,000,000 DM into hotel renovation program, in the period of four years. That would put the existing hotels on the level of demanding “Sol Melia” standards. Nowadays “Sol Melia” is present in 29 countries and manages 260 hotels in Europe, Asia, Africa, and North America.

Other hotel chains known worldwide like Park Plaza International, Radisson SAS, Chorintia, Carlton are interested in Croatian hotel industry: either in leasing Croatian hotels for the period 10 - 15 years or in buying the shares and participate that way in ownership structure.

The transition process in Czech Republic and Hungary started earlier than in Croatia because of war in Croatia 1991 - 1995. In Czech Republic and Hungary there are many international hotel chains such as: Hilton, Holiday Inn, Best Western, Chorintia, Golden Tulip, Intercontinental, Movenpick, Radisson SAS, Renaissance, Hyatt Regency, Kempinsky, Marriott, Novotel.

The length of stay of international tourist in Croatia is the longest compared to the two other countries. Analyzing the data, it can see that almost 40% of the international tourists
to Hungary and Czech Republic are coming to visit the capitals Budapest and Prague, and stay there for city tours including in their city packages.

The majority of foreign tourists coming to Croatia, either by charter plains or by cars, spend their vacation in the coastal resorts where they stay at least 6 days. The most visited tourist regions in Hungary and Czech Republic are their capitals while in Croatia the towns and resorts on the Adriatic coast are on the first place. More educated and sophisticated tourists, who know more about Croatia or who want to learn about Croatian culture, visit Zagreb as the part of their itinerary in Croatia. About 50% of the international arrivals to all three countries are the foreign tourists from the neighboring countries.

In Croatia the highest authority on tourism is the Ministry of Tourism. At the National level tourism has been promoted by Croatian National Tourism Office that has its offices on the level of counties and cities within Croatia as well as the representative offices abroad.

In Czech Republic the Ministry of Regional Development, among other sectors, includes the Sector of Tourism and Finance which incorporates the Department for Tourism. Within the Ministry of Economic affairs in Hungary, there is Department for tourism. At the national level tourism has been promoted by Hungarian National Tourism Office.
CHAPTER IV

Conclusions

In order to become more competitive, Croatia should increase the quality of services offered in tourism. By increasing the quality and providing what is industry promised, rates in tourism could be increased and so the balance between prices and services would be achieved.

The strategy of economy development in Croatia places the accent on tourism and hospitality. This is due to the significant dynamic of growth and opening of new jobs. The development of small hotels is a very important issue in tourism development. Small hotels contribute greatly to the quality of the tourism product. Tourists prefer the quaintness of smaller facilities. This is because they feel part of the family.

Improving the service quality in Croatian tourism is a priority. One goal is to diversify the product in order to extend the tourist season. Reconstruction of the existing hotel facilities, better traffic connections with countries from where the tourists come from and better positioning of Croatian tourist product will all be necessary.

It seems as though the natural beauty of Croatia is endless. Not even all of the wartime destruction has succeeded in desecrating the beauty and the wealth of Croatia’s forests, national parks, historical monuments and authentic villages and fortresses, none of which are the same.
There are numerous possibilities for developing rural tourism, eco-tourism, adventure tourism. Croatia should waive customer duties and VAT (value added tax), the taxes on imported equipment and other capital goods used for the renovation of existing hotels and for the construction of new hotels. By waiving and decreasing the tax the services used in creating the tourist product become less expensive and the tourist product will become competitive.

However, in order to achieve a more regionally balanced tourism development, the government should assist the private sector, including local and foreign investors, to undertake small hotel projects on strategic locations. The demand for small luxury hotels with intimate atmosphere is increasing. The tour operators known worldwide for their luxury tours, such as American tour operator “Abercrombie & Kent” are seeking small luxury properties in the cities they visit. Small hotels, with 10 - 30 rooms, built in Croatia, in areas such as Dubrovnik, Middle Dalmatia, Istra and on Middle Dalmatian Islands would be extremely attractive for foreign independent travelers (FIT).

Tourism planning and development in Croatia as well as the objectives should be much more ambitious, promotional activities should be more sophisticated, the Government stimulus should be much stronger because, otherwise, there will not be the opportunities for faster tourism development
what, compared to European trends, means significant falling behind.

For rebuilding the tourism, Croatia should create clear strategy on tourism development. Tourism in Croatia should be given the status of export industry. If the value added tax on the services in tourism, was decreased, it would enable the tourist package (hotel accommodation and other services that tourist buy) to be competitive with other tourist destinations in Europe.

Information about Croatia, as a tourist destination, should be easily available therefore Croatia should invest more in organized and more sophisticated promotional activities.

Quality should be the priority in strategy of the tourism organizations in Croatia. To achieve this goal the organizations should create the learning environment and train the staff for destination management in order to meet the demanding requirements of foreign tourism markets as well as their customers.

Tourism has a huge impact on labor market taking into consideration its specific role in employment of women labor force as well as unskilled and migrant workers what is extremely important for Croatia as the unemployment is one of essential economic and social problems.

Development of tourism would improve the life standard of the local population, provide long-term development of rural
areas and Croatian Islands as well as create additional market for domestic products.

The comparative advantages of Croatia should be use more in promoting its tourism product. As a country situated at the Adriatic, close to Central and Western Europe, besides very comfortable climate, Croatia has outstanding natural resources and cultural heritage preserved through art, literature, architecture and historical monuments. Its nice and friendly people make tourist feel at home.

Currently, the perception of Croatia held by many larger tour operators in Western Europe and America is not extremely favorable. The press as well as TV worldwide has tended to report on continuing war in Kosovo and Serbia, i.e. Yugoslavia, so that Croatia is mistakenly considered as unsafe destinations.

The way to combat this attitude is to develop an aggressive and positive promotional campaign that will change the perception about Croatia. The initiative could begin with public relations campaign to get various media, tour operators, and travel agents to Croatia so that they actually experience the country and its attractions firsthand. The familiarization trips should be a cornerstone promotion and must have an educational focus. Guidebook publishers should be contacted and invited to print a special edition about Croatia. Notable photographs could be taken and distributed
through public relations companies to the press, with creative story ideas that writers may want to investigate.

This type of general visibility of the destination directly contributes to creating awareness and demand among travelers.

**Summary of Conclusions**

Croatia should develop a clear and concise vision for tourism development for the country. Definite focus should be placed on education and implementation of a service quality. The promotional strategy should be sophisticated and be directed at specific market segments.


Ministry for Regional Development (1998), Table 2.3, *Foreign Tourist in Czech Republic in 1998 by Location*, and 2.4, *Foreign Tourist in the Czech Republic in 1998 (excluding same day visitors)*, Prague, Czech Republic.

Wheatley (1997) Old Men are New Infants, Management Accounting (British).

World Tourism Organization (1997) Table 2.1, World’s Top 40 Tourism Destinations, Table 2.2, World’s Top 40 Tourism Earners, Madrid, Spain.